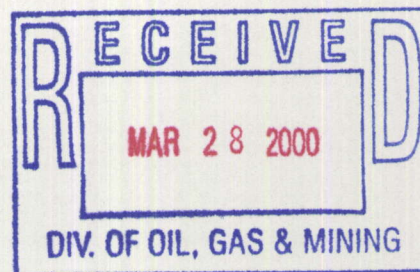


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# UTELITE CORPORATION

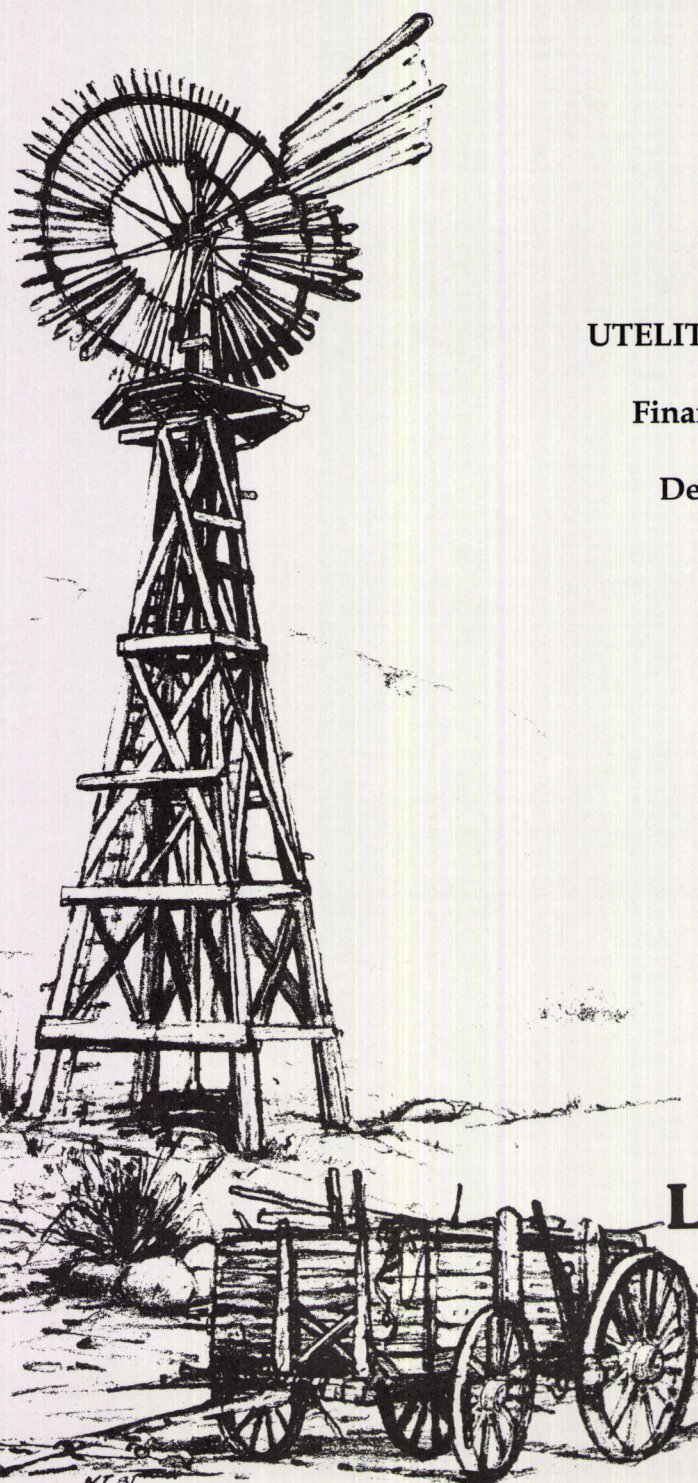
## Financial Statements

December 31, 1999

# Lynn M. Carlson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

4505 SOUTH WASATCH BLVD.  
SUITE 300  
SALT LAKE CITY, UTAH 84124  
TELEPHONE (801) 277-1040





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DIVISION OF  
OIL, GAS AND MINING



# UTELITE CORPORATION

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CORRESPONDENCE TO  
P.O. BOX 17957  
SALT LAKE CITY, UTAH  
84117-0957

To the Board of Directors  
**UTELITE CORPORATION**  
Coalville, Utah 84017

We have reviewed the accompanying statement of assets and liabilities--income tax basis of **UTELITE CORPORATION** (an S corporation) as of 12/31/1999, and the related statements of revenues and expenses--income tax basis, retained earnings--income tax basis and cash flows--income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of **UTELITE CORPORATION**.

The financial statements have been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note A.



**LYNN M. CARLSON & CO.**

March 16, 2000

**UTELITE CORPORATION**  
**STATEMENT OF ASSETS, LIABILITIES & EQUITY--INCOME TAX BASIS**  
**December 31, 1999**

**ASSETS**

**CURRENT ASSETS**

Cash	\$	385,143
Trade Accounts Receivable		1,035,311
Employee Accounts Receivable		196
Material Inventory		54,971
Notes Receivable Shareholders--Current		<u>25,000</u>

**TOTAL CURRENT ASSETS** **1,500,621**

**PROPERTY AND EQUIPMENT**

Land	416,779
Buildings, Structures & Land Improvements	432,697
Plant Machinery & Equipment	4,558,839
Pollution Control Equipment	604,732
Machinery	1,050,371
Autos, Trucks, Trailers	102,440
Office Equipment	40,181
Less Accumulated Depreciation	<u>(5,293,544)</u>
	<b>1,912,495</b>

**OTHER ASSETS**

Notes Receivable Shareholders--LT	162,229
Assets in Progress	<u>62,959</u>
	<u>225,188</u>
	<u><b>\$ 3,638,304</b></u>



## **LIABILITIES AND STOCKHOLDERS' EQUITY**

### **CURRENT LIABILITIES**

Accounts Payable	\$	245,627
Accrued Payroll Taxes		3,693
Notes Payable--Current		<u>247,178</u>

**TOTAL CURRENT LIABILITIES** 496,498

### **LONG TERM LIABILITIES**

Notes Payable--LT		<u>524,310</u>
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**TOTAL LIABILITIES** 1,020,808

### **STOCKHOLDERS' EQUITY**

Common Stock, Par Value \$1.00		164,757
500,000 Shares Authorized		
164,758 Shares Issued, of which		
49,690 are held in Treasury		
Premium on Capital Stock		235,415
Treasury Stock		(49,370)
Retained Earnings		<u>2,266,694</u>

2,617,496

\$ 3,638,304



**UTELITE CORPORATION**  
**STATEMENT OF REVENUE AND EXPENSES--INCOME TAX BASIS**  
**December 31, 1999**

<b>SALES</b>	<b>\$ 6,869,243</b>
<b>COST OF SALES</b>	
Inventory Adjustment & Purchases	87,566
Direct Labor	1,151,129
Plant Power & Utilities	143,549
Kiln Fuel	643,504
Shale Freight In	1,723
Delivery Expense	2,187,622
Small Tools	12,176
Supplies	53,304
Repairs & Maintenance	586,604
Fuel & Oil	126,877
Raw Material Royalties	61,168
Contract Mining	138,281
Lab & Testing	2,742
MSHA	1,076
Air Pollution	5,901
	<u>5,203,222</u>
<b>GROSS PROFIT</b>	<b>1,666,021</b>
<b>EXPENSES</b>	
Marketing & Promotions	24,220
Employee Benefits	147,854
Payroll Taxes	82,082
Advertising	8,700
Travel & Sales	8,393
Insurance	38,271
Telephone	12,917
Legal & Professional	44,465
Office Supplies & Postage	19,226
Taxes & Licenses	36,995
Auto Allowance & Expense	15,725
Miscellaneous & Bank Charges	11,596
Bad Debts	9,234
Dues & Subscriptions	14,621
Training	5,552
Depreciation	526,336
Management & Accounting	3,985
Rents & Leases	22,353
ESCSI	20,637
Depletion	126,633
	<u>1,179,795</u>
<b>INCOME FROM OPERATIONS</b>	<b>486,226</b>
<b>OTHER INCOME (EXPENSE)</b>	
Interest & Dividend Income	20,941
Gain or (Loss) on Sale of Assets	(379)
Interest Expense	(67,181)
	<u>(46,619)</u>
<b>NET INCOME \$</b>	<b><u>439,607</u></b>

See accountant's report and notes to financial statements.

**UTELITE CORPORATION--TAX  
STATEMENT OF CASH FLOWS--INCOME TAX BASIS  
December 31, 1999**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 6,650,047
Interest and dividends received	20,941
Other operating receipts	0
Cash paid to suppliers and employees	(5,549,370)
Interest paid	(67,181)

**NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

**1,054,437**

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Cash payments for the purchase of property	(454,784)
Cash proceeds from the sale of property	14,549

**NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES**

**(440,235)**

**CASH FLOW FROM FINANCING ACTIVITIES:**

Net borrowings on line of credit	0
Principal payments on long-term debt	(272,619)
Dividends paid	(255,000)
Proceeds from issuance of long-term debt	0

**NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES**

**(527,619)**

**NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS**

**86,583**

**CASH AND EQUIVALENTS, BEGINNING OF YEAR**

**298,560**

**CASH AND CASH EQUIVALENTS, END OF YEAR**

**\$ 385,143**



**RECONCILIATION OF NET INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES:**

<b>Net Income</b>	<b>\$ 439,607</b>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	652,969
(Gain) loss on disposal of property	379
(Increase) decrease in accounts receivable	(219,196)
(Increase) decrease in prepaid expenses	0
(Increase) decrease in inventories	87,567
(Increase) decrease in other assets	7,500
Increase (decrease) in accounts payable	32,037
Increase (decrease) in accrued liabilities	53,574
Total adjustments	614,830
<b>NET CASH PROVIDED (USED BY OPERATING ACTIVITIES)</b>	<b>\$ 1,054,437</b>

**Supplemental disclosures of cash flow information:**

**Cash paid during the year for:**

Interest expense	117,268
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**UTELITE CORPORATION--TAX  
STATEMENT OF RETAINED EARNINGS--INCOME TAX BASIS  
December 31, 1999**

**ACCUMULATED ADJUSTMENTS ACCOUNT**

Balance, January 1, 1999	\$	696,846
Taxable Income		439,607
Distributions		<u>(255,000)</u>
Balance, December 31, 1999		881,453

**PREVIOUSLY TAXED INCOME**

Balance, January 1, 1999		20,216
Distributions in Excess of the Accumulated Adjustments Account		<u>0</u>
Balance, December 31, 1999		20,216

**OTHER RETAINED EARNINGS**

Balance, January 1, 1999		1,365,025
		<u>0</u>
Balance, December 31, 1999		1,365,025

<b>TOTAL RETAINED EARNINGS, DECEMBER 31, 1999</b>	<b>\$</b>	<b><u>2,266,694</u></b>
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**UTELITE CORPORATION--TAX**  
**NOTES TO FINANCIAL STATEMENTS**  
(See Accountant's Report)

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Income Tax Basis of Accounting**

The Company's policy is to prepare its financial statements on the income tax basis of accounting; consequently, the Company recognizes depletion expense as the greater of cost depletion or statutory depletion. Under generally accepted accounting principles, only cost depletion is acceptable.

**Income Taxes**

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

**Allowance for Doubtful Accounts**

No reserve for bad debt has been established by the Company. Historically, uncollectible accounts receivable have not been significant enough to warrant establishing a reserve. Bad debts are written off as it becomes evident that they are uncollectible; any recoveries are included in income when received.

**Inventories**

Inventories are valued at the lower of cost or market under the first-in, first-out, (FIFO) method. Cost is determined using the Internal Revenue Code's guidelines with respect to uniform capitalization of inventory.

**Depreciation**

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets using the accelerated cost recovery system and the modified accelerated cost recovery system required by the Internal Revenue Code.

**Cash**

For purposes of the statement of cash flows, the Company includes only cash on deposit and similar demand deposits that are not subject to withdrawal restrictions or material penalties as cash and cash equivalents.



**UTELITE CORPORATION--TAX**  
**NOTES TO FINANCIAL STATEMENTS**  
(See Accountant's Report)

**NOTE 2--PROFIT SHARING PLAN**

The company maintains a 401(k) retirement plan for its employees. Company contributes a base 1% of all qualified participant's salary to the plan and will match up to 2% of any qualified participant's elective contributions. Additional discretionary contributions from the company are allowed.

Retirement plan contributions expensed as an employee benefit in these financial statements are \$40,105.47.

The company also provides a fringe benefit cafeteria plan for its employees.

**NOTE 3--LONG-TERM DEBT**

Long-term debt at December 31, 1999, consisted of the following:

1999

A note payable due First Security Leasing, pursuant to a Master Equipment Loan and Security Agreement dated January 16, 1996. The terms and interest rate were adjusted as of June 11, 1999. The note has a five-year term, monthly principal and interest payments of \$15,285.87 and bears an interest rate of 7.40%. The proceeds from this loan were used to finance a major plant expansion. The Company added an additional kiln and the supporting equipment required to bring the kiln into production. The loan is secured by all the equipment and fixtures at the plant site.

\$ 639,011.47

Interest Expense on this loan in the amount of \$56,014.22 has been deducted in these financial statements.

A trust deed note payable due Elden F. and Juanita Lee B. Stembridge, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$13,787.41 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 38.8888% interest in a tract of land in Summit County.

\$ 24,107.29

Interest expense on this loan in the amount of \$2,994.71 has been deducted in these financial statements.

A trust deed note payable due Thomas Edward Brown, Jr., incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$5,925.82 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 16.6666% interest in a tract of land in Summit County.

\$ 10,361.30

Interest expense on this loan in the amount of \$1,287.12 has



**UTELITE CORPORATION--TAX**  
**NOTES TO FINANCIAL STATEMENTS**  
(See Accountant's Report)

been deducted in these financial statements.

A trust deed note payable due Geraldine B. Ercanbrack, Trustee of the Geraldine B. Ercanbrack Revocable Trust, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$1,975.27 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 5.5555% interest in a tract of land in Summit County.

\$ 3,453.77

Interest expense on this loan in the amount of \$429.04 has been deducted in these financial statements.

A trust deed note payable due Arlene E. Gibbons, incurred June 30, 1998. This note has a three-year term, annual principal and interest payments of \$6,933.21 and bears an interest rate of 9.0%. This trust deed note is secured by an undivided 19.4333% interest in a tract of land in Summit County.

\$ 12,122.72

Interest expense on this loan in the amount of \$1,505.93 has been deducted in these financial statements.

An installment sale contract due Caterpillar Financial Services Corporation, incurred May 1, 1999. This contract has a twelve-month term, monthly principal payments of \$20,607.83 and no interest if contract paid within twelve-month period. This contract is secured by a 1999 Model 966G Caterpillar wheel loader.

\$ 82,431.32

There is no interest expense on this loan deducted in these financial statements.

Total Debt	771,487.87
Less Current Portion	( 247,177.68)
Long-Term Debt	<u>\$ 524,310.19</u>

Maturities of long-term debt are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2001	\$ 177,797.79
2002	163,251.72
2003	<u>183,260.68</u>
	<u>\$ 524,310.19</u>



**UTELITE CORPORATION--TAX**  
**NOTES TO FINANCIAL STATEMENTS**  
(See Accountant's Report)

**NOTE 4--RELATED PARTY TRANSACTIONS**

Notes and other receivables at December 31, 1999 were due from the following related parties:

5% note receivable from a stockholder	\$ 162,229.04
9.25% note receivable from a stockholder-current	<u>25,000.00</u>
	<u>\$ 187,229.04</u>

**NOTE 5--BUY/SELL AGREEMENT**

The Company has entered into an agreement with its four stockholders that obligates the Company, upon the death of a stockholder, to purchase the deceased stockholder's stock in the Company. The purchase price is established by formula.

**NOTE 6--CONTINGENT LIABILITIES**

Seven years ago a lawsuit was brought against Summit County and Summit County Planning Commission for improperly issuing a permit to the Company allowing them to build a rail loading facility in a certain location. In 1994, the Company was named as a defendant in that lawsuit.

As a result of a ruling in that lawsuit, the Company has paid \$15,000 to the Clerk of the Court to be held in escrow pending plaintiffs' appeal of that judgment. Currently the case is scheduled to be heard by the Utah Supreme Court the first week of April 2000.

Although no assurances can be given as to the outcome, the Company believes that it has meritorious defenses to such lawsuit. The Company does not believe that the outcome of such proceeding or the pending appeal will have a material effect on its financial position.